

VZCZCXRO1767
PP RUEHAG RUEHROV
DE RUEHMO #0873/01 0601419

ZNY CCCCC ZZH
P 011419Z MAR 07
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 7838
RUCPDOC/USDOC WASHDC PRIORITY
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L SECTION 01 OF 02 MOSCOW 000873

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E.O. 12958: DECL: 02/28/2017

TAGS: ECON FAIR PREL RS

SUBJECT: RUSSIA:AEROFLOT-BOEING DEAL UPDATE

REF: HOLMAN EMAIL OF 2/28/2007

Classified By: Ambassador William J. Burns by reason 1.4 B and D.

¶1. (C) SUMMARY: Hard as it may be to believe, the Aeroflot wide-bodied tender is not over, and Boeing has not written off the deal (as speculated in the press). Yet prospects diminish as Boeing's delivery advantage slips with each passing month the contract remains unsigned -- even though Aeroflot maintains a clear preference for the 787 over the A350. With cooperation with the newly formed United Aircraft Company (UAC) increasingly central to the Aeroflot contract, Boeing hosted top UAC officials in Seattle last week, is forming a working group with UAC, and will bring its CEO to Moscow March 10-13. Speculation is rife that the GOR is trying to leverage the A350 deal into a seat on EADS' board (thereby giving UAC a say in future Airbus construction outsourcing contracts) but that seems a stretch. Commerce Secretary Gutierrez's upcoming visit is our next best

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opportunity to take another run at the Aeroflot deal. END
SUMMARY.

¶2. (C) Though a bevy of recent press articles suggest the Aeroflot tender for 22 wide-bodied jets has gone to Airbus, no deal has been signed. Boeing Russia President Sergey Kravchenko (please protect) told us February 27 that his company has not "written off the deal" as was speculated, but continues to push back delivery dates with each month that passes without a signed contract. If Aeroflot signed today, it would get its first Dreamliner in January 2014 -- only a year ahead of the earliest possible A350 delivery, instead of the five-year lead contained in the original Boeing proposal.

Kravchenko says that the GOR is pressuring Aeroflot to negotiate with Airbus for a series of smaller A330s that are intended to satisfy its aircraft needs until the larger A350s become available. Yet Aeroflot CEO Valeriy Okulov still favors Boeing, and recently wrote Boeing to encourage the firm to put forth its best proposal for UAC cooperation, explicitly tying UAC cooperation to the 787 purchase.

¶3. (C) The GOR has also explicitly linked the wide-bodied Aeroflot deal to Boeing and EADS' proposals for cooperation with UAC. Months behind EADS overtures to UAC, Boeing hosted UAC Director General Aleksey Fedorov and former Sukhoi CEO (now a deputy at UAC) Mikhail Pogosyan in Seattle last week. Talks were cordial and the two companies agreed to form a working group to examine potential projects. Fedorov, co-owner of Irkut and a long-time EADS supporter, reportedly left with a greater appreciation of Boeing's work on the

Sukhoi SuperJet ("it was an eye opener," he is reported to have opined) but also said UAC would work with either EADS or Boeing, not both, or it will decide to go it alone. Pogosyan is a long time supporter of Boeing and continues to champion Boeing's work on the SuperJet. The fact that Fedorov and Pogosyan are widely known to detest each other personally (which Boeing said was obvious during their trip to the States) is not helping right now.

¶ 14. (C) Boeing plans to submit proposals to the GOR in the coming weeks for specific cooperation with UAC; including the joint working group, a tangible design program, and titanium-related projects. Fedorov asked Boeing to formally split the market segments (narrow and wide-body aircraft) in Russia, an idea Boeing flatly rejected. Fedorov also reportedly stressed the importance of cooperation on the Mi-21 narrow-body mid-range jet, something Boeing considers a poor market opportunity since it is virtually identical to the 737 and A330.

¶ 15. (C) In addition, Boeing CEO Carson will visit Moscow March 10-13, to follow-up on Fedorov's visit to Seattle. Boeing has a number of deliverables lined up for the visit, all of which are being closely held by the firm at this point. Carson's visit comes just one week before top EADS management will make another round of calls in Moscow.

¶ 16. (C) Comment. Fedorov's personal stake in Airbus (he is a large stakeholder of Irkut, which is partly owned by EADS) is certainly not working in Boeing's favor at the moment, but the fact is that Boeing is already working well with Sukhoi on the SuperJet100 project -- practically the only plane in the UAC stable right now. Many here believe that the GOR is still pushing for a EADS board seat (and that the Russian stake in EADS may already be up to 10 percent), but this seems unlikely as long as Merkel is Chancellor of Germany.

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The eventual European rebuff (if not too long in coming) may put Boeing back in the game. The upcoming visit of Commerce Secretary Gutierrez is our next best opportunity to give this

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deal a lift, which could be achieved by making a concerted effort to reach out to Fedorov and Presidential aide Igor Shuvalov, who chairs the UAC strategic planning committee.

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